

***“Creating the Climate for Growth and Opportunity in
Afghanistan”***

Special Inspector General for Afghanistan Reconstruction

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Afghan American Chamber of Commerce

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Good Morning. Thank you for that kind introduction, Mr. Dunlop *[Deputy Assistant Secretary of the Army for Policy & Legislation]*. Your organization is to be commended for everything it is doing to help create hope and opportunity for the Afghan people.

I appreciate the invitation to speak to you today about the reconstruction effort in Afghanistan and SIGAR’s mission to provide oversight of the funds the U.S. Congress has appropriated to re-build that country. A key part of our mission is to promote transparency and increase accountability of the reconstruction effort in Afghanistan. Transparency and accountability are critical to ensuring that U.S. taxpayer’s dollars are well spent. They are also essential to creating sustainable, private sector growth in Afghanistan. Transparency and accountability in public and private institutions are the foundations of public trust, upon which all market economies in the world depend.

And as you know, the economy of Afghanistan—despite all the challenges—is growing. The IMF estimates that Afghanistan’s GDP will grow by a healthy 15% this year, due partly to increased agricultural production. But an important contributing factor, as the UN Secretary General recently pointed out, is the estimated 61% increase in local

procurement by international donors. The United States recognizes the importance of local procurement through its **Afghan First** program. One example of this was the USAID/ISAF-sponsored local procurement conference in Kandahar last month. The conference featured presentations to local Afghan business men and women about how to access millions of dollars of procurement opportunities providing goods and services for Coalition Forces and civilian personnel working in Afghanistan. This is just one more step in what we hope will be greatly expanded opportunities this year for local, private sector procurement all over Afghanistan.

The New Stabilization Strategy

Since 2002, the Congress has provided \$51 billion for the reconstruction of Afghanistan. This will, in all likelihood, grow in 2011. In January, the U.S. government released the Afghanistan-Pakistan Regional Stabilization Strategy which outlined the new U.S. approach to governance and development. This strategy makes agricultural development the top reconstruction priority. It stresses the need to revitalize agricultural value chains and open up trade between Afghanistan and its neighbors. That is one reason why the U.S. government has done so much to facilitate negotiations for a transit trade agreement between Afghanistan and Pakistan. This agreement will help both countries expand markets for their goods and services in the region.

In terms of infrastructure, which is a theme of this conference, the President's new strategy commits to bringing approximately 1,500 MW of electricity generation and transmission capacity online in Afghanistan by

2013 (from 389 MW in April 2009). To accomplish this goal, the new strategy continues to emphasize the rehabilitation of major energy projects, including the Kajaki Dam, the Darunta Dam, and the Sheberghan gas generation plant. But it also focuses on providing renewable energy systems for 300 communities throughout the country. USAID has committed \$80 million to build or rehabilitate small scale micro-hydropower, solar and wind projects, especially in the south and east. This project will be administered through the Provincial Reconstruction Teams. A key component will be establishing the operations and maintenance systems to keep these facilities running.

In January, SIGAR completed an audit of U.S. efforts to develop Afghanistan's energy sector. The audit highlighted the need for Afghanistan to create an updated master plan for the energy sector. It also emphasized the need to increase capacity building efforts in Afghanistan to maintain upgraded energy infrastructure. It is interesting to note that one of the trends we are seeing in Afghanistan is a decrease in domestically produced electricity, and an increase in imported electricity.

As you may also know, the Ring Road is nearing completion. The U.S. government has spent a total of \$505 million on this road, while international donors have contributed \$743 million. So the new stabilization strategy prioritizes transportation projects, including roads and railroads, which connect farmers and entrepreneurs with *district, provincial and regional markets*.

Another focus of the new strategy is revitalizing the *value chains* that support Afghanistan's mining sector, especially for marble and gemstones. As you know, a value chain is the series of activities from manufacturing to retail sales that define an industry's supply chain. The U.S. is helping Afghan marble companies to purchase state of the art equipment, to train miners in safe mining practices, to improve production techniques, and to increase international marketing opportunities. The U.S. is also funding the creation of multiple centers to foster education and training in the skills that add value to gemstone production, such as processing, polishing, cutting, marketing and exporting. For too long, the decimation of these value chains has sent these opportunities abroad and deprived Afghanistan of the full value of its mineral wealth.

SIGAR's Role in the New Stabilization Strategy

What is SIGAR's role in the new stabilization strategy? SIGAR's auditors and investigators are bringing focused oversight to reconstruction activities that are funded through and implemented by multiple agencies and countries. We not only look at individual projects and contracts, but at how these projects and contracts fit into larger programs. We are looking at whether programs support the new U.S. strategic goals. We also look at how U.S. agencies coordinate with each other. In Afghanistan, where there is a significant international involvement, we are also examining whether U.S.-funded programs have been coordinated with the international donor community to realize common reconstruction objectives. At the end of every quarter, SIGAR provides a report to Congress that summarizes current and

historical data on reconstruction activities. Our next quarterly report will be published at the end of April. You can access it on our website, which is www.sigar.mil.

SIGAR seeks to foster a culture of accountability that permeates every aspect of the reconstruction effort in Afghanistan. First and foremost, we track the money. However, my auditors are concerned about much more than whether agencies and contractors are keeping good books. They want to know if the agencies and their implementing partners have the controls in place to mitigate against fraud. Is the money going for activities to achieve objectives that support the U.S. stabilization goals? Are their metrics in place to measure outcomes? Are projects and activities coordinated with others to prevent duplication of effort? Do taxpayer-funded activities have a lasting effect? Does the Afghan government have the ability to operate and maintain the infrastructure we are building? What are we doing to help the Afghan government build capacity to sustain programs in education, health, agriculture and justice?

The Importance of a Secure Environment to Private Sector Growth

Let me focus for a moment on security, which is an important concern for those of you who live and do business in Afghanistan. The most recent World Bank investment climate survey found that one in ten firms in Afghanistan reported losses due to theft, vandalism, robbery or arson. The most recent World Bank Enterprise Survey notes that this is much higher than reported losses due to crime in other South Asian countries or other low-income countries in general. In fact, 36 percent of the Afghan firms

surveyed reported paying for their own security services. The World Bank also reported that security costs as a percent of sales are higher in Afghanistan than South Asian countries or other low-income countries in general. What is the U.S. government doing to make sure that the Afghan National Police will be able to provide security for the Afghan people and for your projects and businesses?

More than half of all reconstruction dollars—about \$26 billion to date—go to build the Afghan National Army and the Afghan National Police. Recently, the Inspectors General of the Departments of State and Defense produced a joint report that concluded that the Department of State’s Civilian Police Program contract—which was valued about \$1 billion—did *not* meet DoD standards for developing an Afghan police force capable of countering the growing insurgency in Afghanistan.

So SIGAR is currently conducting an audit to evaluate the reliability of the rating system used to measure the capabilities of the Afghan National Security Forces. The audit will be published in May. We are interested, of course, in how many troops and police are being trained. But we also want to know if our programs are developing Afghan security forces capable of protecting the Afghan people and defending the Afghan state so that U.S. forces can withdraw. By evaluating these programs objectively, SIGAR audits and investigations can help clarify the way forward for this key program.

Contracts and Contractors are Important Development Partners

The United States government could not achieve its goals in Afghanistan without contractors. At the same time, contractors must have systems in place to ensure that they complete projects in compliance with their statements of work on time and within budgets. The onus is on the prime contractors to monitor subcontractors to ensure they deliver a quality project.

While U.S. agencies will continue to rely on private contractors to implement many of their reconstruction programs in Afghanistan, the new U.S. strategy in Afghanistan is to work in greater partnership with the Afghan government and local NGO's and organizations. The United States and other donors have said that, in principle, they would like to increase the proportion of development aid delivered through Afghan government institutions to 50 percent in the next two years. In fact, one of the goals of the U.S. stabilization strategy is to channel 40% of U.S. government funds through GIRoA or local NGO's by the end of 2010. According to Ambassador Richard Holbrooke, about 13.5 percent of U.S. assistance is currently channeled through the government of Afghanistan. And that number is scheduled to increase to 20% by the end of this year. This support, however, depends upon the Afghan government making progress in several areas. These include strengthening its public financial management systems, improving budget execution, and reducing corruption.

The Need to Build Afghan Government Capacity

For the new U.S. policy to work, Afghan institutions must have the capacity and the desire to effectively manage all the funds they receive and protect them from waste, fraud, abuse and other forms of corruption.

Everyone—the donors, international organizations, the Afghan government, and, most importantly, the Afghan people—is disturbed by the pervasive corruption in Afghanistan. Those of you doing business in Afghanistan understand this very well. The most recent World Bank Investment Climate survey actually attempted to quantify the cost of corruption to private sector enterprises in Afghanistan. Survey respondents reported paying approximately 2 percent of sales as bribes or informal gifts to get things done. And bribery is just one aspect of corruption.

The World Bank has reported what it calls a criminal culture with “networks of corruption”, which include not only the buying and selling of government positions, but also sweetheart deals in procurement and the award of contracts. Corruption of this magnitude distorts market incentives, destroys competition and decimates private sector growth and job opportunities.

Because corruption corrodes the government’s legitimacy and undermines international development efforts, strengthening the Afghan government’s capability to fight corruption must be an integral part of the U.S. reconstruction effort. Therefore, SIGAR launched an anti-corruption initiative last year to 1) build the capacity of Afghan institutions to deter corruption and strengthen the rule of law and 2) determine the extent to

which various national and local institutions have systems in place to account properly for donor funds.

Last December we issued an audit of the High Office of Oversight (HOO). We found that this key office needs significantly more authority, independence and donor support to become an effective anti-corruption institutions. In March, President Karzai issued a decree that gave the HOO more independence and authority to investigate and sanction corrupt officials. This is a good step forward. The U.S. Embassy is working closely with the HOO to help it implement the articles in the decree.

Let me also mention two SIGAR audits that are part of our anti-corruption initiative. The first, which has just been published on our website, reviews U.S. and other donor efforts to strengthen the capabilities of Afghanistan's Control and Audit Office. The second is assessing the Afghan government's ability to account for U.S. government payments of salaries to Afghan government officials and advisors.

Our anti-corruption work will help our implementing agencies identify the Afghan institutions we can work with as partners. It will also help identify areas where we can use our reconstruction dollars to improve accountability. We are expanding this program and hope to have more than 20 auditors working at the national and provincial levels by the end of 2010.

Improving accountability at every level—from senior officials to the policeman in a remote district office—must be at the heart of our reconstruction effort. Neither military power nor all the reconstruction dollars in the world can—no matter how well projects are designed and

executed—can produce a secure and stable Afghanistan if Afghans do not believe in their government.

SIGAR’s goal is to ensure that U.S. implementing agencies, contractors large and small, and the governing institutions in Afghanistan are accountable to U.S and Afghan citizens. And an important part of our legacy, is leaving behind stronger institutions that will support your efforts to create sustainable hope, opportunity and prosperity for the Afghan people.

Thank you again for inviting me to this conference

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